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May 13, 2009

Elise Gould, Ph.D., M.P.Aff.
Director of Health Policy Research
Economic Policy Institute
1333 H Street, NW
Suite 3000, East Tower
Washington, DC 20005-4707

Dear Dr. Gould,

Please provide answers to the following questions for the record from the 4/29/09 Full Committee Hearing on employer-sponsored insurance:

Questions from Representative Sanchez

I have been a strong supporter of employer-based coverage. For those in union jobs, the college-educated, or who work for large corporations like IBM, the employer-based system has worked quite well. Surveys show that the majority of those lucky enough to have employer-sponsored coverage are satisfied with their health plans.

Those who are not as satisfied with the current system include not only those who do not get coverage through their workplace, but also those who lose coverage when they lose a job. A constituent recently wrote me about the struggles she has gone through as a cancer patient after losing her job and the health insurance that went with it. While COBRA coverage exists, the reality is that most unemployed people cannot begin to afford it.

Please share ideas about how we might reform the system so that losing a job does not mean losing high quality, affordable coverage, even if we retain our current employer-based system? For example, how might the newly unemployed access the health insurance "exchange" to retain or obtain health insurance?

Hearing on Health Reform in the 21st Century: Employer Sponsored Insurance
U.S. House of Representatives
Committee on Ways and Means
Wednesday, April 29, 2009

Response to a question posed after the hearing
Elise Gould, Ph.D.
Director of Health Policy Research
Economic Policy Institute

Question by Representative Linda Sanchez: *Please share ideas about how we might reform the system so that losing a job does not mean losing high quality, affordable coverage, even if we retain our current employer-based system. For example, how might the newly unemployed access the health insurance "exchange" to retain or obtain health insurance?*

Promoting High Quality, Affordable Coverage

Meaningful health reform ought to ensure quality, affordable coverage for all Americans. There are many ways to accomplish this goal, but given that the current reform initiative is expected to build on the existing employer-sponsored insurance system, health reform must include the following components:

- *National Health Insurance Exchange:* An insurance exchange is an essential component of any comprehensive health reform initiative. It would help organize and regulate the often disparate, inefficient, and uncompetitive system of insurance providers, driving cost-control and system efficiencies. An exchange (also referred to as "connector" or "marketplace") would regulate the sale of health insurance (for example, ensuring that companies do not discriminate on health status and offer plans to all who apply), promote healthy competition between insurers, and facilitate the comparison and purchase of policies by consumers.
- *A Public Insurance Plan Option:* An exchange must include a public insurance plan that would compete directly with private insurers within a new national insurance exchange. Some have argued that a well-designed exchange with sufficient regulations would make a public plan option unnecessary. This is unlikely to be the case as a public plan provides crucial benefits to the U.S. health care system even within a well-designed exchange. A public plan would ensure competition between private plans, particularly in markets where there are one or only a few insurers, drive down administrative costs, spearhead quality advancements and innovations that private insurers do not have an incentive to pursue, and serve as a benchmark for the insurance industry¹. The public insurance plan must be able to use its size to bargain lower rates from providers to achieve meaningful cost control and containment, and must be publically administered, rather than a plan contracted from a private insurer, so that it can effectively incentivize delivery system improvements.

(and lowest-cost) enrollees and firms rather than on quality or cost control. An exchange should promote competition on quality and efficiency.

- *Ensure affordability for all individuals:* The exchange must ensure that all plans comply with a minimum level of affordability and financial protection. Individuals who cannot afford even the minimum level of coverage but do not qualify for public programs (such as Medicaid and Medicare) ought to be provided with subsidies so that they may purchase coverage.
- *Provide a public option in addition to private plans:* The exchange must include a public plan option in addition to private insurers. While the exchange itself is an important first step, previous research has shown that meaningful cost containment, innovation, and protection is only achieved with a publically-provided alternativeⁱⁱⁱ.

Administrative Models for a National Exchange

A national exchange could be similar to the existing Massachusetts Connector, an agency established during that state's health reform process. The Connector acts as an intermediary between insurers, the state, and individuals, facilitating the purchase of insurance or enrollment in public coverage programs, delivering subsidies to qualifying households, and overseeing insurer compliance with state regulations. This is accomplished through two distinct programs. The first offers a choice of three "tiers" of state-subsidized private insurance to low-income individuals who do not qualify for existing public insurance (such as Medicare or Medicaid). The second offers a selection of four standardized "tiers" of coverage (labeled bronze, silver, gold, and young adult) to individuals and small businesses.

Six private insurance companies offer plans through the connector. The plans that private insurers offer must conform to actuarial standards for each tier. An actuarial value is a measure of an insurance plan's generosity and is expressed as the percentage of charges paid by the insurer for a common set of expenses for an average population. A gold plan through the Massachusetts connector must have an actuarial value of 93%, with no deductible and low co-payment rates. A silver plan must have an actuarial value between 67% and 81% and can have higher co-payments and a deductible. A bronze plan must have a value of 56%. It is crucial to note that while actuarial values provide an estimate for plan generosity, they are by no means sufficient. A recent study has documented the fact that even plans in the same tier of coverage can have drastically different out-of-pocket burdens for conditions such as breast cancer, diabetes, or a heart attack^{iv}. Therefore, more detail is needed to document the true expected out-of-pocket burden for each policy.

The Connector is managed by a board of directors that decides the criteria for a number of Connector activities, including levels of subsidies for low-income individuals, approving insurance plans for sale within the exchange, determining whether or not individuals have "creditable coverage" given a new law requiring most to obtain coverage, and designating exemptions and fines for non-compliance with the "creditable coverage" mandate. A similar board could be appointed to manage a national exchange.

Individuals can access the plans in the Massachusetts Connector by calling a toll-free call center staffed in English and Spanish, visiting a new user-friendly website, or by visiting a number of public agency

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JON TRAUB,
MINORITY STAFF DIRECTOR

May 13, 2009

Gerald Shea
Special Assistant to the President
AFL-CIO
815 16th Street, NW
Washington, D.C. 20006

Dear Mr. Shea,

Please provide answers to the following questions for the record from the 4/29/09
Full Committee Hearing on employer-sponsored insurance:

Questions from Representative Sanchez

Currently, many employees who lose their jobs have the option to purchase COBRA coverage, but as you know, because of the expense, for many, this is really only a paper option, and not a real solution. Moreover, not all employed Americans have the option to buy COBRA coverage when they lose a job. How would the AFL-CIO recommend we strengthen the health insurance system for those between jobs? For example, do you believe that a health insurance "exchange" that many experts have proposed would help the newly unemployed?

Memorandum

American Federation of Labor and Congress of Industrial Organizations
815 Sixteenth Street, N.W., Washington, D.C. 20006 / (202) 637-5000



To: Andrew Dawson
From: Eileen Grobecker
Date: May 20, 2009
Re: Representative Sánchez's Question

Please see attached for Gerald Shea's response regarding the April 29th Ways and Means Full Committee Hearing On Employer Sponsored Insurance per Representative Sánchez's request.

If you have any questions you can contact me at 202.637.5375.

Thank you.

American Federation of Labor and Congress of Industrial Organizations



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May 20, 2009

Honorable Linda T. Sánchez
U.S. House of Representatives
1222 Longworth House Office Building
Washington, D.C. 20515

Dear Representative Sánchez:

The cost of COBRA coverage is unfortunately financially out of reach for the vast majority of Americans who lose their job.

To provide working families coverage through work requires:

1. Affordable (and high quality) coverage be available to all workers and their families. Doing so necessitates that all employers would pay a substantial share of premium costs, that government subsidies be available based on income, and that cost-sharing, e.g., co-pays and deductibles be part of what's included in "affordable coverage" when the government subsidy is calculated.
2. Workers who lose their jobs should be allowed to purchase subsidized coverage according to their ability to pay for themselves and their families through a robust insurance exchange that guarantees affordable coverage through comprehensive consumer protections and market regulations and that offers a public health insurance plan option.

As Congress writes health reform legislation, provisions such as these need to be specified so that people out of work don't fall between the cracks of coverage. As the current economic crisis shows, we must be prepared to subsidize coverage for extensive periods of time and not time limit the benefits.

Finally, the AFL-CIO believes that for health care coverage to be sustainable, health care cost inflation must be substantially lowered. Cost savings can be realized through a combination of delivery system reforms that increase quality and value of health services, payment reforms that tie payments to quality, strong insurance market reforms and a public health insurance plan option.

Thank you for your support for health care that works for working families and for the opportunity to provide the views of the AFL-CIO before your committee.

Sincerely,

A handwritten signature in dark ink, appearing to read "GMS", is written over a horizontal line.

Gerald M. Shea
Assistant to the President

GS/eg